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Pensions & Investment Age

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Ford Financial executives (left to right) Ralph Pompea, Robert Chambers and John Pettipher: A full-fledged investment broker

Ford sub pushes its brokering services

Privately placed $30 million last year

By Pavan Sahgal

DEARBORN, MI.—A newly named Ford subsidiary, Ford Financial Services Inc., is aggressively attempting to become an investment broker to the Fortune Second 500 group of companies.

Corporate finance

The company, which is affiliated with Ford Motor Credit Co., privately placed $30 million last year and expects to place another $250 million this year. The company hopes to be among the top 15 private placement agents next year, with over $350 million.

"I've made a personal commitment that I, as president, and at least one of my vice presidents will personally be involved in every deal we do," said Ralph G. Pompea.

Ford Financial was known as Ford Credit Equity Corporation in its previous incarnation when it handled transactions mainly for the Ford Motor Co. and affiliates. The firm, registered in 1977, was renamed in mid-August to herald its broader role.

In what may be a novel corporate move, the Ford firm is selling financial and private placement expertise to smaller companies and emerging as a full-fledged investment broker.

Ford, in offering to assist other firms, is capitalizing on the first-name relationships its professionals have developed with institutional lenders over the years.

"Through Ford Motor Credit, they have a wide array of contacts," said David E. Candler, vp financial services at Fairchild Aircraft Corp. in San Antonio,

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Late news

LTV hires for equities

DALLAS, TX.—The LTV Corporation has selected Franklin Portfolio Management to run a $75 million equity portfolio for its over $1 billion pension fund, according to an LTV spokesman.

In addition, LTV has hired Thomas L. Karsten Associates as a real estate investment adviser, the spokesman said.

Franklin Portfolio Management, based in Boston, was chosen to run a passive equity portfolio for the pension fund that will be the core portion of the portfolio as well. Thomas L. Karsten will advise LTV on properties in which the fund will have direct participation, he said. LTV plans to increase its commitment to real estate from 10% to 15% through these direct investments.

GM moves overseas

NEW YORK—General Motors has authorized three of its money

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Stock given in lieu of cash

Plan nets a hefty profit from stock contribution

By Kimberly Blanton

ROCHESTER, N.Y.—Eastman Kodak Co.'s $2.5 billion pension fund snapped up a tidy $42 million profit on its sale of a three million-share block of Kodak common stock. Kodak issued the stock to the fund only three weeks before, in lieu of a cash contribution.

While apparently saving the photographic company cash in a year when its liquidity is low for its high liquidity standards, the stock contribution left Wall Street bankers and analysts speculating on the move.

Kodak has refused to comment more than to say that the move was to save cash.

Kodak is a healthy company, and its cash position—over $500 million—would be envied by many other companies.

The financial condition under which it contributed stock is in sharp contrast to that of firms in the troubled metals industry, such as U.S. Steel Corp., that recently contributed preferred stock to their pension plans in lieu of cash (*Investment Age*, Sept. 14).

However, Wall Street analysts say Kodak is wary of letting its cash dip below the $500 million mark. Analysts are now speculating on why the healthy company did not issue the stock directly into the market and place the cash proceeds into the fund to meet its annual funding requirement.

Analysts suggested that issuing the stock to its own pension fund guaranteed a solid price for the stock when the company was faced with a "disappointing" earnings statement, which could weaken the price of the stock.

The move also left the company, or at least its fund, in a position that would allow it to sit on the issue and wait for any future price increase. "It's a disguised way for the company to issue new stock," one analyst commented.

Whatever Kodak's motivation, the move was a profitable one for

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Utility hires for futures

Public Service Co. names Stuyvesant Capital to manage a $5 million equity account that uses stock index futures

DENVER, CO.—The $150 million Public Service Company of Colorado pension fund has transformed one of its equity portfolios into one managed with stock-index futures.

In the Colorado utility's first use of any type of futures, trustees granted the New York investment management firm, Stuyvesant Capital Management, approval to use stock-index futures in its management of an existing $5 million equity account, according to Doug Robertson, assistant treasurer.

The account will be managed apart from the utility's other equity funds.

A handful of pension funds already employ bond futures, but Public Service of Colorado is one pension fund that is leading institutions' initiation into the new stock index futures market.

A stock index future is a contract either to buy or to sell a market index, such as the Standard & Poor's (S&P) 500, at a specific index level at a later date. Unlike, say, bond futures, delivery of a large portfolio of stocks is impossible, and these contracts are instead settled in cash at $500 per index point.

Mr. Robertson admitted that since the fund had never used futures, it was difficult to gain trustees' approval. He said his case for using the new contract turned around, however, with the recent relaxation by the Department of Labor for rules regarding margin requirements in futures trading (*IA*, Oct. 11).

The utility's approval of a stock index account follows closely Westinghouse's use of the new contract to participate in the stock market's recent rally (*IA*, Oct. 25).

Mr. Robertson is apparently unfazed by his role in the vanguard of the industry. "The futures market is nothing new. The only thing new is there's the possibility of using equities (futures)," he explained.

The contracts first began trading Feb. 24 with the Kansas City Board of Trade's introduction of the Value Line-index future. The Chicago Mercantile Exchange's S&P 500 contract, and the New York Futures Exchange's NYSE contract soon followed. Stuyvesant Capital will use all three in managing the utility's account.

Mr. Robertson deferred questions about strategy to Herb Moser, principal at Stuyvesant Capital.

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Use of excess assets hit

Terminations spark House committee bill

By Joel Chernoff

WASHINGTON—The House Select Committee on Aging is drafting a bill to deter employers from terminating their pension plans to regain any "excess" assets.

The bill would require that all or part of the residual assets be distributed among plan participants. Committee chairman Claude Pepper (D-Fl.) is expected to introduce the bill in about a month.

In the past year, several major employers, such as Harper & Row Publishers Inc., A.G. Becker, and the Great Atlantic & Pacific Tea Co. (A&P) have terminated overfunded plans and used the residual assets for various purposes.

The House Aging Committee believes that the motivation for terminating some of these plans was not in "the best aggregate interests of participants," according to a committee staffer.

The Internal Revenue Code "says that overfunding should be the result of actuarial error," the aide continued. He questioned whether that standard is really being observed by the Internal Revenue Service.

"Assets represent deferral of income to employees," the staffer said. Thus, any surpluses should redound to the mutual benefit of both employer and participants.

To remove the incentive for em-

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"There are no surprises"

Institutions react favorably to the 1982 election results

By Pavan Sahgal

NEW YORK—Major Institutional investors are bullish on the market after last Tuesday's election.

The Democratic victories, at face value, imply that President Reagan will be restricted in his ability to steer his legislative programs through Congress, but some investors called the poll results "mild gains" for the President. Many felt the economic programs that are in place will remain.

The Dow Jones industrial average gained a record 43.41 points on the day after the elections, closing at 1,065.49.

Investors reacted positively to the victories, said John Whitmore, president and chief executive officer of Bessemer Trust Co., because the Republicans retained a majority in the Senate. Democrats won't be able to undo the programs in place, he commented.

Similar views were voiced by others in the investment community, who said a bull market the day after the polls was just a reinforcement of their views.

"The market has said that the Republicans didn't lose," said J. Anthony Forstmann, managing partner and chief investment officer at Forstmann-Leff Associates, a money management firm which manages about $2.4 billion, almost all in tax-exempt assets.

"The Democrats have gained enough so that there will be a more moderate course," he added. "I think the market is certainly appreciating it at this point. There are no surprises."

Other investment managers noted that the upward bias in the market had preceded the election, and investors had only paused temporarily to see if anything untoward might happen at the polls.

"I think an uncertainty, even a mild uncertainty, has been removed with respect to a change in government philosophy," said Victor J. Melone, chief investment officer at Manufacturers Hanover Trust. "It was a mild plus for Mr. Reagan."

One reason the investment community did not view the Democratic gains as a Republican loss is that many of the Democrats are seen as being from relatively conservative constituencies.

"I don't think it (the outcome) mattered much, unless you saw Kennedy-type Democrats elected across the board," said Mr. Melone.

In his perception, a "pragmatic" approach would prevail among the Democrats. The effort would be "to try and accommodate getting the economy growing again," he said. ■

Banks may be scrutinized by California public funds

By Steve Hemmerick

SACRAMENTO—Some California legislators are worried that the huge bank stock holdings of the state's retirement funds might be hurt by troubled bank loans.

At a hearing of the Joint Committee on Public Pension Fund Investments, a couple of legislators suggested that investment officers for the state retirement funds tell top banking officials of their worries over loans to foreign countries that could go into default, such as loans to Mexico and Poland.

Legislators suggested that the retirement systems' concerns be expressed directly to bank officials

Melvin Petersen, chief investment officer for the $17.5 billion California Public Employees' Retirement System (PERS) and the $9.7 billion State Teachers' Retirement System (STRS), told committee members that the retirement systems' concerns could be expressed directly to bank officials.

"Yes, we could do that. We have not been that active in going directly to those institutions and telling them about our concerns," said Mr. Petersen.

"One problem with the banking industry is you can't see into their long portfolio. Only after a country or a company gets into trouble do you get a sense of what they have lent," he said.

He told committee members that some banks are being avoided by the state's inhouse investment staff, though he did not say which banks are being avoided. He also said there has been a "flight to quality."

The PERS had a number of large holdings in bank stocks, according to Computer Directions Advisors (CDA), Silver Spring, Md. As of June 30, they were (ranked by market value) Bank of America, with 1% of shares outstanding; Citicorp., with 1% of all shares; Mercantile Texas Corp. with 3% of all shares; Chase Manhattan, with 1% of all shares; Seafirst Corp., with 4% of all shares; Wachovia Corp., with 3% of total; and Northwest Bancorp, with 2% of all shares. Figures for the STRS were unavailable.

State Senator Alister McAlister, chairman of the Assembly Committee on Finance, Insurance and Commerce, asked Mr. Petersen if the state investors had considered selling some of the Bank of America holdings.

In reply, Mr. Petersen said, "We have been selling some Bank of America stock. A lot of the problems are reflected in the price. It's a very long position, and we have been interested in reducing it some." But he did not spell out the

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Late news

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managers to invest portions of its portfolio in international equities if market conditions are favorable, sources said. The three managers are: Mellon Bank, through its Mellon Pictet affiliate, Citibank and Morgan Guaranty Trust Co.

Gordon Binns, chief investment funds officer, declined comment other than to say that GM is looking at overseas investments and that process is continuing.

Hancock sets up sub

BOSTON—John Hancock Mutual Life Insurance Co. has formed an investment management subsidiary, Independence Investment Associates.

Independence Investment, which has been split off from the insurance company's pension investment department, is an active stock and bond manager that uses computer technology and quantitative methods to sort information.

It will initially manage $1.25 billion in pension assets from existing clients, as well as John Hancock's large commingled stock and bond accounts.

New Mellon realty sub

NEW YORK—Four key employees unhappy with a reorganization at Merrill Lynch Hubbard have jumped ship and joined Mellon Bank's new venture in real estate investment and management.

Robert Kinney and James Foran, both former vps and institutional real estate managers at Merrill Lynch, began last Monday as president and executive vp, respectively, of a wholly owned real estate subsidiary of the bank's holding company, Mellon National Corp. Richard Normandin, a senior investment manager at Merrill Lynch, will join Mellon with similar duties in mid-December, and Karin Shewer, a new product developer is also joining Mellon.

Fund adds custodian

BOSTON—The Massachusetts State Teachers Annuities fund, with $1.1 billion in assets, named as custodian State Street Bank and Trust, Boston. State Street replaces First National Bank of Boston, which continues as custodian for the $1 billion Massachusetts State Employees Fund.

Proposition defeated

SACRAMENTO, CA.—California state ballot proposition No. 6, which would have allowed state public retirement funds and some county public funds to increase their stock holdings, was defeated by an almost two-to-one margin. The ballot proposition was supported by Gov. Jerry Brown, who also lost his bid for a U.S. Senate seat. If the proposition had passed, many California public funds would have been able to invest up to 60% of their portfolio in common stocks, instead of the current 25% limit. It would have also allowed the funds to invest a small portion of their portfolio in the stocks of emerging companies.

Carnation selects 1

LOS ANGELES—Carnation Co. has hired Dreyfus Management Inc., New York, to replace Prudential Insurance Co. of America, Newark, N.J., as manager of a $30 million balanced equity and fixed-income account.

Michael Malone, Carnation's treasurer, would not comment on the reasons for the switch, made without the aid of a consultant.

Tacoma fund appoints

TACOMA, WA.—The $90 million Tacoma Employees Retirement System moved a $15 million equity account to IntraWest Investment Management Group, according to Gary Gillingham, acting manager.

Scudder, Stevens & Clark, San Francisco, which formerly managed $30 million in equities, now manages $15 million. The second manager was added because the fund reached a size where it wanted diversification and consistent return, said Mr. Gillingham. IntraWest Group is the trust department of IntraWest Banks of Denver.

The bank changed its name from First of Denver.

Fund buys raw land

DALLAS—E-Systems Inc.'s pension trust, which has most of its real estate investments in raw land, will invest about $14 million in cash to purchase 1,004 acres in a Dallas suburb, a company spokesman said.

The undeveloped land will be purchased from members of the Rasor family, which has extensive land holdings in Plano in Collin County, the site of the E-Systems purchase. The deal is scheduled to close in January.

Earlier this year, E-Systems bought 140 acres northwest of Fort Worth.

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Heafitz, Widmann

Partner to sell interest in oil and gas advisory firm

By Nancy Webman and Maria Crawford Scott

NEW YORK—Meridien Capital Co., a New York-based private investment firm, has agreed in principle to purchase a 35% interest in Heafitz, Widmann, McMahon & Gardner, an oil and gas investment banking firm.

Meridien has agreed to buy the interest from Bruce Heafitz, one of the firm's principals, who will be resigning. The price was not disclosed.

The agreement comes amid rumors concerning Mr. Heafitz's personal financial condition. Mr. Heafitz has a large amount of his personal capital invested in the oil and gas area, and he termed his plight a "cash flow problem," which he said will be worked out by the end of the year.

"The agreement will allow us to concentrate our activities in the institutional market," said Roger Widmann, principal.

He said the firm and Mr. Heafitz have "different investment requirements."

"Bruce is more concerned with deal-making, and we (the firm) are concerned with money management for pension funds." He added that Mr. Heafitz's involvement in oil and gas deals generally involved risk. "We don't take those kinds of risks" he said.

A similar concern led to the departure earlier in the year of another principal, Mike McMahon, who joined James D. Wolfensohn Inc.

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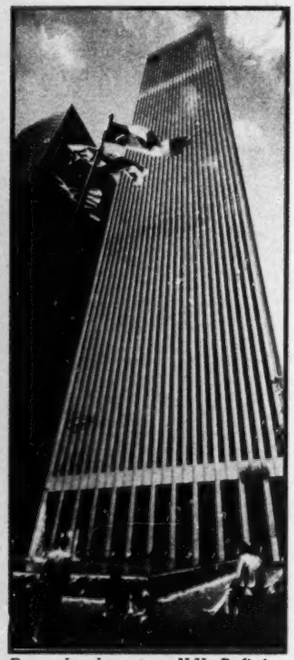

Exxon headquarters, N.Y.: Refining a Wall Street swap concept

New debt exchanged for old

Security swaps take on a new twist

NEW YORK—Wall Street is humming a new tune called New Debt for Old, which some investment bankers claim was composed by Morgan Stanley & Co.

Morgan, some say, serenaded the Exxon Corporation with it sometime last fall, but failed to catch its ear at the time.

However the oil company, which has been displaying an independent streak in corporate finance expertise, maintains it developed the debt-exchange strategy itself.

Exxon refined the concept on its own, premiered the idea, and preempted Wall Street's fanfare.

It swapped two issues of a subsidiary, which carried interest rates of 6.625% and 7.4%, for zero coupon bonds backed by the parent company.

Exxon thus succeeded in taking about $40 million in debt off its balance sheet, even as the Street claimed the oil firm had priced its deal too low and left a sizeable picking on the table.

The idea, which could be used by many other corporations, is an improvisation of the stock-for-debt swaps pioneered by Salomon Brothers late last year (*IA*, Jan. 4), but it is different in that it offers new debt in exchange for old debt.

Because the new securities are offered under certain provisions in recapitalization laws, it is also possible to obtain all the pre-1982 tax law advantages of a zero-coupon bond for both the lender and the issuer.

For the issuer, this implies the opportunity to amortize interest payments on a straight-line basis, thus permitting greater front-end tax savings in the life of the new bond.

Cash-basis, individual bondholders also may enjoy some tax-free gains during the life of the security. Not only is interest sheltered from annual income taxes, observed Wall Street bankers, but some of the appreciation may be reported as capital gains when the bond matures.

"Among the benefits of doing the transaction are that the company records an extraordinary accounting gain," said John H. Erdman Jr., principal at Morgan Stanley. "It reduces the amount of debt on its balance sheet, initially, and it significantly reduces the cost of borrowing.

"The reason I say 'initially' is that you have issued a zero-coupon bond, and you record a lower amount of debt on your balance sheet initially. But it increases over time as interest charges are accrued."

Because the new issue is a zero coupon security, the firm does not have to pay out interest periodically. But the corporation is still required to record interest expense and charge it to income. The interest charges are amortized over time, and the company pays out the full face value of the bond and the accrued interest when the notes come due. When issued, zero coupons sell at a hefty discount.

Exxon Shipping Co., a wholly owned subsidiary of Exxon Corp., swapped $55 million of its outstanding 6¾% guaranteed notes due 1998 and $68.5 million of its $75 million outstanding 7.4% guaranteed notes due 2002 in a transaction concluded Sept. 17 (*IA*, Sept. 27).

In return it offered new, Exxon Corporation-guaranteed, "deferred interest debentures" due 2012. The notes had a face value of $270 and are to pay accrued interest of $730 making a total of $1,000 on maturity in 30 years.

According to Exxon officials, the interest rate costs on the new bonds would be in the 11% range. But the returns to a bondholder may vary.

"It all depends on what the individual holder thinks was the market value of the securities he's giving up," said Jack F. Bennett, senior vp and director at Exxon.

Exxon traded the bonds with about 50 holders, which included several state pension funds. The trades also involved investment banks.

Mr. Bennett listed several advantages to Exxon.

"We lowered our debt on the books and therefore improved our debt ratio," he said. "We extended maturities at a favorable rate, and there's also some current net income that may be flowing from this."

According to Mr. Erdman of Morgan Stanley, in a debt-for-debt swap a firm's borrowing costs are reduced because the net present value cost of after-tax interest and principal payments is lower than if the debt were offered under conventional methods.

Investment bankers acknowledge that the tax provisions permitting stock-for-debt and debt-for-debt swaps are extremely technical and demand a sophisticated understanding of the law to

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Wall St. investment banks 'downsize'

Smaller companies are finding majors willing to underwrite their financings

NEW YORK—A number of major investment banks are looking to generate underwriting business from smaller companies as profit margins on larger transactions decline.

The trend, which one Wall Street banker calls "downsizing," is developing as firms seek new sources of underwriting fees which have been sliced by shelf registration and increased competition.

"In the initial public offering field, we see major bracket firms managing or willing to manage underwritings of newer and smaller firms, violating their own minimums," observes Graeme K. Howard Jr., a partner in Howard & Co., Philadelphia-based corporate finance specialist and publisher of "Going Public: The IPO Reporter."

"Among the major bracket firms, there are investment banks willing to underwrite companies with after-tax revenues of $1 million or less," disclosed Mr. Howard.

"A few still may say, 'If you don't have $2 million net after-tax, we don't want to underwrite you.' But we see, because of our participation in the IPO (initial public offering) market, much more interest among the majors in small firms with good prospects. There's a willingness to stretch."

The twist may benefit medium-sized corporate issuers in lending more pizzazz to their offerings and ensuring a wider distribution for their securities.

But regional investment banks who have customarily serviced these firms may find themselves working twice as hard to stay where they are.

Some regional investment banks, however, say that they welcome Wall Street collaboration because it is "in the best interests of our (corporate) clients."

"That's great," said Hugh A. Johnson Jr., senior vp at the First Albany Corporation.

"It adds a dimension to our own capabilities.

"Despite the fact that it may mean marginally less fees, to have a Donaldson Lufkin or an L.F. Rothschild co-manage an offering is not unacceptable at all. In fact, it's a logical step for a firm such as ours to take when we have a client who is at the stage where he needs broader distribution or more sophisticated investment banking advice."

Donaldson, Lufkin & Jenrette (DLJ) is lead manager, for instance, for a forthcoming secondary, stock distribution for CSP, Inc. First Albany took the hi-tech company public earlier this year, and is now co-manager in the secondary distribution.

The firm's after-tax profits are estimated to exceed $1 million. The offering may also involve the issue of some new stock, with the total package valued around $11 million.

In addition, DLJ will be lead manager for Raymond Engineering Inc., a Middletown, Ct. firm that is scheduled to go public in December with an offering of 550,000 shares. The issue price is estimated to be between $8 million to $8.5 million. Raymond's after-tax profits for the first nine months of 1982 are estimated to be $1.4 million.

First Albany and Advest Inc. of Hartford, Ct., are co-managers in the offering.

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This section was researched and written by Pavan Sahgal. In addition to *IA*'s regular coverage, the next special section will appear January 10.

The top 15 initial public offering underwriters

The following underwriters are ranked by dollars raised through the nine months ending Sept. 30; co-managers receive full credit. The figures in parentheses represent the total number of offerings.

The list was compiled by Howard & Co., publishers of "Going Public: The IPO Reporter."

	($ million)	
Hambrecht & Quist, San Francisco	116.7	(4)
F. Rothschild, Unterberg, Towbin, N.Y	91.8	(4)
Merrill Lynch, N.Y.	54.3	(2)
Shearson/American Express, N.Y.	40.9	(2)
Alex. Brown & Sons, Baltimore	34.9	(3)
Robertson, Colman, Stephens, San Francisco	31.6	(2)
E.F. Hutton, N.Y.	30.3	(2)
Montgomery Securities, San Francisco	24.8	(4)
D.H. Blair & Co. Inc., N.Y.	24.3	(7)
Kidder, Peabody & Co. Inc., N.Y.	23.5	(2)
Drexel Burnham Lambert Inc., N.Y.	19.3	(3)
The First Boston Corporation, N.Y.	19.0	(1)
Warburg Paribas Becker Inc. N.Y.	14.6	(2)
Blinder, Robinson & Co. Inc., Denver	14.6	(5)
Dean Witter Reynolds, San Francisco	12.0	(1)

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Wall Street firms are downsizing . . .

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"The wildly exciting companies are not the big behemoths, but small companies in high-growth fields," said Mr. Johnson.

Wall Street, obviously, sees that.

To stay ahead, regional firms may have to start beefing up their corporate finance divisions and strengthening their origination expertise so as to have more new deals.

"It is forcing us to do the kind of things that we not only should do, but have greater capability than recognized," admits Mr. Johnson of regional investment banking firms as a whole.

"That capability is based on having, first of all, a lot of intimate contacts with companies, and secondly, having some very bright and imaginative people who understand the companies.

"Those two things are pretty powerful in securing business and establishing new relationships," he added.

But the majors already are running cheek to jowl with the regionals. In an effort to establish a broad, on-the-spot national presence, The First Boston Corporation, for instance, plans to move some of its corporate finance personnel from New York to offices in Boston, Chicago, Dallas, Houston, Los Angeles, and San Francisco.

"If you've got capabilities in many areas, obviously you are going to earn more money if you can spread these capabilities to a wider market," comments John Crosby, managing director and director of marketing at Merrill Lynch, a firm which spread its operations to a full market spectrum long before its peers on the Street.

The remarks were phrased as a general comment on the industry.

"I think Wall Street is saying, 'Hey, we've got the capacity and capability to help a wide array of companies in all industries in all sizes,' " he added. "But that doesn't mean Wall Street is moving all its energies into very small companies. That would be illogical. But, obviously, it is broadening its parameters."

In Mr. Crosby's view, "Clearly, there's a continuum from the company that's almost zero in size to ones that are very, very large.

"Wall Street is going to proceed along that spectrum as they perceive opportunity," he said. "They're going to concentrate their manpower and resources where they can have the greatest impact —for the client's benefit and the firm's benefit."

Wall Street is now beginning to reel in the smaller bites it may not have liked to hook a few years ago because the spreads on bigger business have narrowed and competition for very high quality issues is keener.

"The one thing that we've found is that corporations are willing to listen to different bids," said a corporate finance source at one prominent investment bank. "From their point of view, it is a great thing.

"They file a shelf registration statement. They get a blurb in The Wall Street Journal. Every investment banker on the Street calls in with a bid for their securities. And then they go to their managing underwriters, whom they've listed on the prospectus, and say: 'Okay guys, this is what the Street thinks this issue is worth; what are you going to do?' "

Negotiated transactions with smaller firms, therefore, are the logical route to any sizeable underwriting fees.

The smaller the company whose securities are to be underwritten, the higher the spread Wall Street is able to quote for managing the offering. For the higher spread, strongly capitalized investment banks are more willing than their smaller peers to take on the increased risks associated with distributing the securities of some of the newer firms, according to one investment banking source.

But the regional firms, which once were "very, very conservative" in their selections, in turn may be underwriting companies at an earlier stage.

"Among regional investment banks, there both is and will be much more competition," says Mr. Howard, of Howard & Co. "Rule 415 means fewer and fewer underwriting syndicates, which means retail brokers and regional firms don't have any new issues to sell."

Narrower profit margins on the shelf-rule deals often mean that there is not enough room to build in the higher compensation for retail salesmen. Consequently, the effort is to place these deals in large blocks with institutions.

But new issues carry higher commissions, and they also mean that the buyer doesn't pay a commission, a selling advantage to the broker.

"Corporate finance departments at regional firms are going to have to create their own product," said Mr. Howard.

"They will have to spend more time to find companies that are willing to go public. And, even more important, they too may be more willing to underwrite smaller companies." ■

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Gold future options trade

NEW YORK—The Commodity Exchange Inc. (COMEX), the world's most active gold market, opened trading in options on gold futures in October. The options are expected to appeal to a large variety of investors because they limit risk exposure to a predetermined dollar amount. They were recently approved by the U.S. Commodity Futures Trading Commission as part of a three-year pilot program for exchange-traded options on futures contracts.

An option conveys the right but not the obligation to buy or sell a particular security, commodity or other instrument within a specified period of time at a particular price, known as the strike price.

The COMEX option is based on its 100 troy ounce gold futures contract, the nation's second most active futures contract in 1982, which has had over nine million contracts traded to date. A futures contract represents an obligation to buy and receive, or to sell and deliver a particular quantity of a commodity at a specified future date. Both call and put options on April, August and December gold futures contracts are traded.

There were five strike prices on opening day for the option, but additional strike prices are expected to be added as needed, based on movements in the underlying futures contract. Strike prices for the options are set at intervals of $10 to $40 an ounce depending on price levels.

For strike prices between $300 and $500 per troy ounce, the intervals will be $20 apart. ■

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Pensions & Investment Age ®

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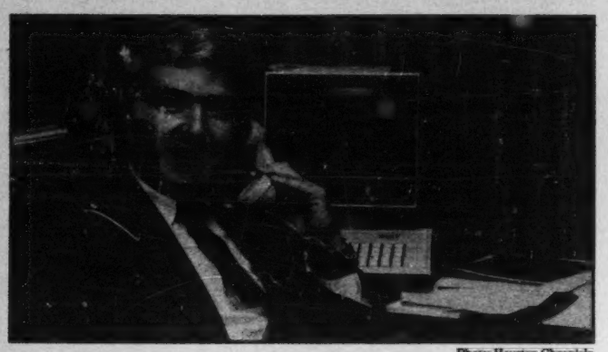

Photo: Houston Chronicle

Hoisington: A defensive position in an "artificially induced" bond rally

Bond funds best stocks in third quarter results

Median pooled fixed-income funds return 30.5% for 12-month period

By Lynn Griffo

NEW YORK—Fixed-income pooled funds provided extraordinary returns averaging more than 30% over the past 12 months, far outperforming equity funds for the year and for the latest quarter.

The median bank and insurance company pooled fixed-income fund showed a return of 30.5% for the 12 months, and 12.5% for the quarter, according to the latest Pensions & Investments Performance Evaluation Report (P.I.P.E.R.) which is compiled by Rogers, Casey & Barksdale Inc.

These figures reflect both the rally in the fourth quarter of last year and the favorable environment for bonds which continued throughout this year as interest rates drifted downward for the first six months and plunged in the third quarter.

P.I.P.E.R. statistics start on page 17

The median equity return for the latest quarter was 10.6% and over the latest 12 months it was 11.6%. Over the three-, five-, and 10-year periods, median bond returns have been edging upwards, with figures for those periods of 8.4%, 6.5% and 6.6% respectively.

The best return the third quarter was reported by Hawaiian Trust Co., which showed a return of 20.6% for that period. The number two spot was filled by First Wisconsin National Bank of Madison, Wi., with a 20.4% return. In third, fourth, and fifth place were First National Bank of Birmingham, Central National Bank of Cleveland and Union Planters National Bank of Memphis with returns of 20.3%, 19.8% and 19.5% respectively.

In the number one spot for the 12-month period ending Sept. 30, is Commerce Union Bank, in Nashville, Tn., with a whopping 47.7% return. Commerce Union was also the top performer for the 10-year period with a 9.3% compound annual return for that time.

The top return for the three-year period was reported by Fourth National Bank and Trust Co., in Wichita, Ks., which had a 15.3% compound annual return. Fourth National also came in first for the five-year period with its 11.8% compound annual return.

Although the third quarter median return of 12.5% looks good, it is lower than its comparative indices. For the same period, the Lehman Brothers Kuhn Loeb Govern-

Continued on page 73

Pooled stock funds miss August bull

By Linda Savage Ruhe

CHICAGO—The managers of many bank and insurance company pooled equity funds apparently were caught with significant cash positions when the market took off in mid-August. The funds, on average, under performed the Standard & Poor's 500 index for the third quarter.

Of the 254 bank and insurance company funds ranked in the latest Pensions & Investments Performance Evaluation Report (P.I.P.E.R.), compiled by Rogers, Casey & Barksdale Inc., the median fund was up 10.6% for the quarter, compared with 11.5% for the S&P 500.

Over the 12 months ending Sept. 30 the median fund was up 11.8% compared with a gain of 10.0% for the S&P 500. Indeed, 154 out of 253 equity funds beat the S&P 500 for the year.

Here the cash positions the managers took anticipating a continued decline in the market during the year served them well, protecting them somewhat from the market decline in the first half of the year.

For the third quarter, only 78 of the managers beat the S&P 500.

The top performer for the quarter was Bank One Trust, Oh., with a return of 23%. Ohio Citizens Trust ranked second with a return of

Continued on page 73

Firm stays in cash as bonds take off

Hoisington says rates will drop substantially

By Nancy Webman and Kimberly Blanton

HOUSTON—Hoisington Investment Management Co., the fastest growing money management firm in the nation last year, remains in cash and is sitting out the bond rally.

While other bond managers were raking in extraordinary returns from the interest-rate declines during August, September and October, Van Hoisington, president and chief investment officer, remained "defensively" in cash, and he remains so still.

His decision is based on his opinion that there is no proof of a long-term bull market in bonds and that there is a greater risk to being invested in the bond market than not being invested.

Mr. Hoisington's skepticism about the bond rally has reportedly not gone down well with all of his clients. Though most of the clients apparently hired him because of his defensive approach, a few were reportedly not happy at seeing him on the sidelines while the Salomon Brothers High Grade Bond Index was producing a return of 21.5% in the third quarter.

Those clients contacted by *Investment Age*, however, stressed that Mr. Hoisington's returns were still good and they hired him for the long run. One sponsor, in fact, allocated more money for the firm after the bond market rally.

One pension fund client who hired Mr. Hoisington last year said he is "clearly disappointed with recent returns." But he added, "No bond manager can make every call correctly. We're in it for longer

Continued on page 72

Enforcement removed from PWBP

DOL pension office may be reorganized

By Joel Chernoff

WASHINGTON—A pending reorganization of the Department of Labor's pension and welfare benefits program (PWBP), along with other possible moves, may leave the pension office a paper tiger, according to informed sources.

What's more, pension experts worry that the changes will impair or kill efforts to deregulate the pension area.

The actions will leave the offices of enforcement, and possibly policy planning and research, outside the purview of the pension and welfare program.

Secretary of Labor Raymond Donovan will appoint a deputy assistant secretary to handle enforcement for all of the programs in the Labor-Management Services Administration (LMSA), which includes the pension program. The slot, which is newly created, will be filled by John Walsh, who was head of a task force that sharply criticized the PWBP enforcement efforts. Mr. Walsh, a retired FBI agent, previously examined pension law enforcement for the Senate permanent subcommittee on investigations.

The announcement was expected shortly as of press time.

Insiders say the move is intended to stifle criticism of agency enforcement efforts by the Senate Labor and Human Resouces committee, headed by Sen. Orrin Hatch (R-Ut.).

In addition, pension experts say that internal politicking within the DOL will lead to PWBP's policy planning and research office being restored to LMSA, from which it originally was taken. DOL officials, however, deny these moves. The policy planning office does the work behind legislative proposals, advisory opinions and other technical areas and is considered the "brains" behind much of the pension program.

Some observers argue that the pension program needs to be beefed up, and they are mystified over what appears to be a downgrading of the program.

After having the Carter administration tighten the reins on the pension program, "now we have the Reagan administration going a further step backward to dismantle the 'independent' organization and totally integrate it with the Labor-Management Services Administration," the Labor Department division in which it operates, says Dallas Salisbury, executive director of the Employee Benefit Research Institute (EBRI) and a former PWBP official.

For the employee benefits community, the changes means "less efficiency and responsiveness" from the Labor Department, Mr. Salisbury adds.

Sources say that if Mr. Clayton loses both the enforcement division and the policy planning office, it would leave him with an office of technicians, responsible for rule-making but having no teeth. Basically, he would be left with the offices of fiduciary standards, communications and public services, and reporting and planning stan-

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Late news

Florida realty move

TALLAHASSEE, FL.—The $5 billion Florida State Board of Administration will allocate over $300 million to three investment managers for direct real estate investments, according to Ken Peterson, chief investment officer. In the fund's first real estate investments, Equitable Life Assurance Society of the U.S., New York, First Capital Realty Services Corp., Miami, and LaSalle Partners Inc., Chicago, were each instructed to arrange equity real estate ownership of about $100 million, and were given three years to do so, he said.

Rockefeller cancels

NEW YORK—Rockefeller Center Inc. (RCI) has called off an agreement in principle under which Prudential Insurance Co. was to have refinanced a half share in the Rockefeller Center complex with a 10-year $400 million loan at 12¼%. Prudential would have received an option to swap the capital

Continued on page 2

Sacramento commits up to 1%

City fund finds silver lining in precious metals market

By Steve Hemmerick

SACRAMENTO—The $140 million Sacramento City Employees' Retirement System has been trading up to 1% of its assets in gold and silver since March, according to city treasurer Thomas P. Friery.

The inhouse-run program, he said, has earned a $621,300 on its "hard assets" from March 15 to Nov. 1.

"So the program using only 1% of assets has increased the yield on our overall portfolio by 44 basis points, which I think is substantial," said Mr. Friery.

Even though results have been good so far, the city treasurer said he is not "married to the metal indefinitely" and adds that he wouldn't suggest to anyone that the rate of return that has been achieved so far will continue in the future.

Since the program began, the emphasis has been on silver, much less expensive per ounce than gold. At one point, the city fund owned up to 110,000 ounces of silver and 600 ounces of gold. But it has not been a buy and hold metals program.

One month when the city fund owned 100,000 ounces of silver, it shortly sold 40,000 ounces of silver and reduced its holding of gold from 600 ounces to 100. Over a three month period—August through October—the fund traded or turned over 4,600 ounces of gold and 500,000 ounces of silver.

"It is a market that requires continual watching and readiness to act. It moves very quickly," said Mr. Friery.

When the program began, it was decided that of the 1% of assets set aside for it, up to 60% of that 1% would be invested in silver and up to 40% of it would be invested in gold.

Why the emphasis on silver?

Continued on page 73

Inhouse pension results bettered by foundations

SILVER SPRING, MD.—Internally managed foundation and endowment funds outperformed internally managed pension funds in the first nine months of 1982, according to a new study.

The study, prepared by Computer Directions Advisors Inc., examined 69 internally managed stock portfolios whose holdings were reported to the Securities & Exchange Commission (SEC), and found no pension funds in the top 10, and only six in the top 20. Thirty-five pension funds were included in the survey.

Internally run public funds fared better than their private counterparts: Only one corporate fund, the $903 million Gulf & Western Industries fund, was in the top 20.

Only nine pension funds performed better than the market, and several large internal funds, including GTE Investment Management, AT&T, and the New York State Teachers fund, underperformed the Standard & Poor's index for that time period.

The best performing funds were those of foundations which in-

Continued on page 74

Internally managed funds
(Nine month returns)

	($ millions)	%
General Electric Foundation	9	35.4
Hewlett Foundation	258	32.9
Sears, Roebuck & Co.	65	29.0
Gannett Foundation	196	27.9
Kresge Foundation.	163	19.0
Robert Wood Johnson Fdn.	904	17.5
Richard King Mellon Fdn.	87	16.1
Berkshire Hathaway Inc.	765	10.9
Duke Endowment	335	10.1
University of California	2,339	9.2
University of Pennsylvania	108	8.8
Ohio State Teachers	1,546	7.8
Texas Teachers	2,050	7.8
Wisconsin Investment Board	2,041	6.5
Massachusetts Institute of Tech.	87	6.4
Ohio School Employees	207	5.7
California Public Employees	3,430	5.7
Ford Foundation	637	5.4
Elfun Trusts	157	5.1
Gulf & Western Industries	903	4.7

Late news

Continued from page 1

for a 50% equity interest in the complex after five years. Richard Voell, RCI president, said negotiations were called off because Prudential attached too many strings to the money. Prudential said it had not determined from where it would raise the money.

GAF terminates plan

NEW YORK—The GAF Corporation filed papers Nov. 8 with the PBGC, the DOL, and the IRS to terminate its salaried employees pension plan. In September, it had announced its intent to do so and replace the plan with a defined contribution plan. At the time, the firm said it expected an extraordinary tax gain of $35 million due to overfunding.

PBGC rate dropped

WASHINGTON—The Pension Benefit Guaranty Corp. has lowered the interest rate for valuing benefits of terminating nonmultiemployer plans to 10.25% from 10.5%. The new rate is effective for plans terminating on or after Dec. 1, 1982.

UAW adds PBGC suit

CHICAGO—The United Auto Workers employed by White Farm Equipment Co. are now suing the Pension Benefit Guaranty Corp. (PBGC), in addition to the company, for the termination of three pension plans with roughly $20 million in assets. The PBGC became trustee of the three pension plans Sept. 14, and estimates the liability for benefits that would fall upon it due to the terminations would be between $45 million and $50 million (*IA*, Sept. 27).

Tang purchase results

DETROIT—Tang Industries' purchase of McLouth Steel Corp.'s assets will result in the termination of one pension plan and part of another. Under the terms of the sale, the pension plan for unionized employees will be split into two plans, one covering active union employees and the other covering union retirees. The latter will be terminated, as will McLouth's salaried employees plan. However, Tang will make up the difference between guaranteed benefits and accrued vested benefits for the union retirees plan. The PBGC estimates its liability at $20 million to $25 million, before recovery.

U.K. firm buys interest

NEW YORK—L.F. Rothschild, Unterberg, Towbin, the Wall Street investment banking firm, disclosed plans last week to sell a 25% interest in the firm to a U.K. investment company, RIT and Northern PLC. The transaction will involve an initial payment of $30 million to Rothschild. But the firm may secure another $30 million over the next eight years by offering another 25% interest to the U.K. investor.

Common Fund selects

FAIRFIELD, CT.—The Common Fund, in cooperation with a dozen other major university endowment funds, has selected Frank Russell International as consultant for its international investing project, said George Keane, president of the Common Fund.

GIC rates of return

WESTPORT, CT.—The median rate of return on five-year, $5 million guaranteed investment contracts (GICs) declined to 11.98% in November, the lowest rate since they earned 11.9% in Sept. 1980. The rates were reported in Evaluation Associates Nov. 4 issue of Insurance Contract Profiles.

G.R.I.D total returns

PHILADELPHIA—The median total return of the 290 balanced funds in Butcher & Singer's G.R.I.D. universe was 11% in the third quarter.

G.R.I.D., which stands for the Graphical Ranking of Investment Descriptors, is a portfolio classification system developed by the Fiduciary Consulting Group at Butcher & Singer. In the third quarter, the best performing balanced fund returned 20.8%, while even the worst fund was up 5.6%.

The equity portfolio returns paralleled the total fund performance in the third quarter, and achieved a median return of 11.6%. The median fixed income return was up 12.6% for the third quarter.

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LTV fund moves into international arena

Targets 5% of assets for overseas

By Lynn Griffo

DALLAS, TX.—The LTV Corp. has made its first move into international investing and has selected two managers to run $20 million in this area, according to an LTV spokesman. LTV, with pension assets totaling $1 billion, plans ultimately to place up to 5% of its assets in international.

Morgan Grenfell Ltd. and Fidelity International were hired to run $10 million apiece, the spokesman said. The hirings will become effective Dec. 1. The company will eventually increase its overseas exposure by raising the asset allocation to its two current international managers and not through additional hirings, the spokesman said.

LTV decided to make the move into international at this time because it provides an opportunity to temper the volatility of the total plan portfolio, thereby reducing risk, according to the spokesman.

In addition, the spokesman said international investing allows the fund to add value, or incremental return, over and above what is available in the domestic market.

"It's fair to say that the major international markets have performed more favorably over the past five to ten years than the domestic markets have," said the spokesman.

Perhaps the most important incentive for LTV's move into international was the timeliness factor, said the spokesman. LTV sees this as the time for a pension fund to go into international because the dollar is so strong relative to other currencies.

"When the overseas markets pick up, you see a decline in the value of the dollar and can earn increased returns from both the international markets themselves as well as from the currency play," explained the spokesman.

Continued on page 4

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P.I.P.E.R. returns for equity, fixed income

The statistical data on this and subsequent pages is extracted from Pensions & Investments Performance Evaluation Report (P.I.P.E.R.), a quarterly performance evaluation service published by *Investment Age*.

The service details comparative performance data on more than 200 equity funds and a like number of fixed-income funds for banks and insurance companies. The reports are compiled by Rogers, Casey & Barksdale Inc., Stamford, Ct. For further information, see pages 70 and 71.

For subscription information, write: P.I.P.E.R., c/o *Investment Age*, 740 N. Rush St., Chicago, Il. 60611. All data is copyright 1982 by Crain Communications Inc.

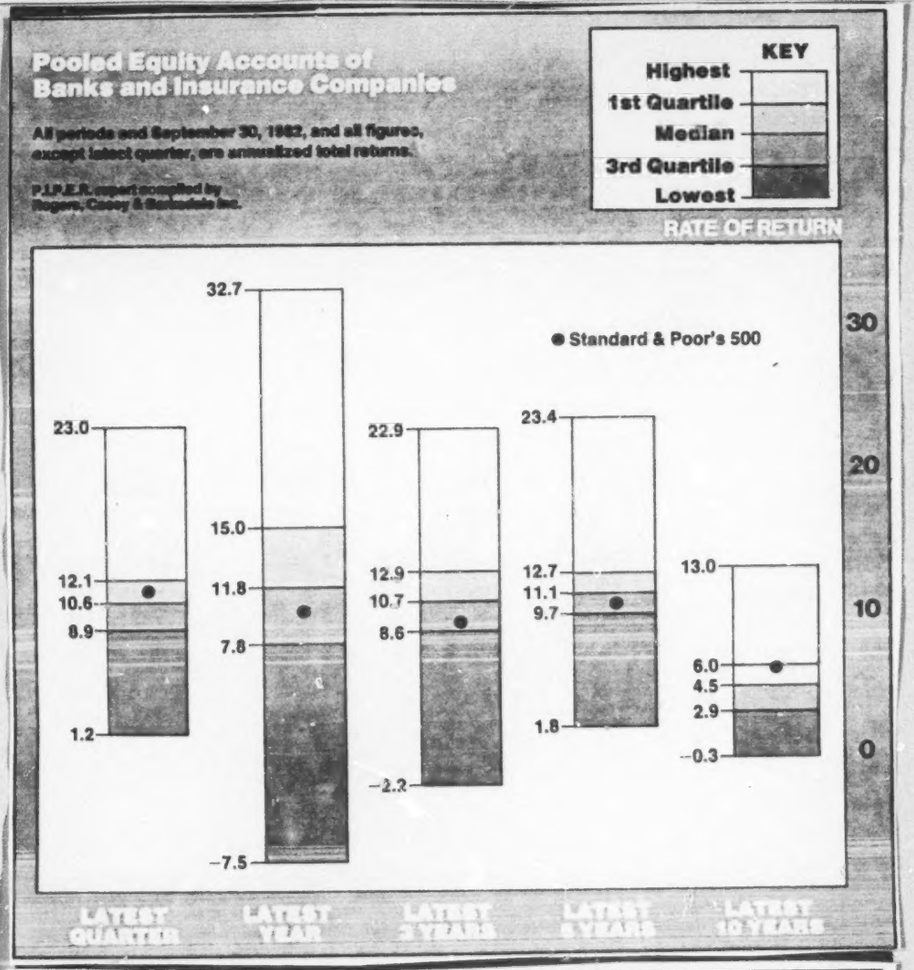
Commingled equity funds

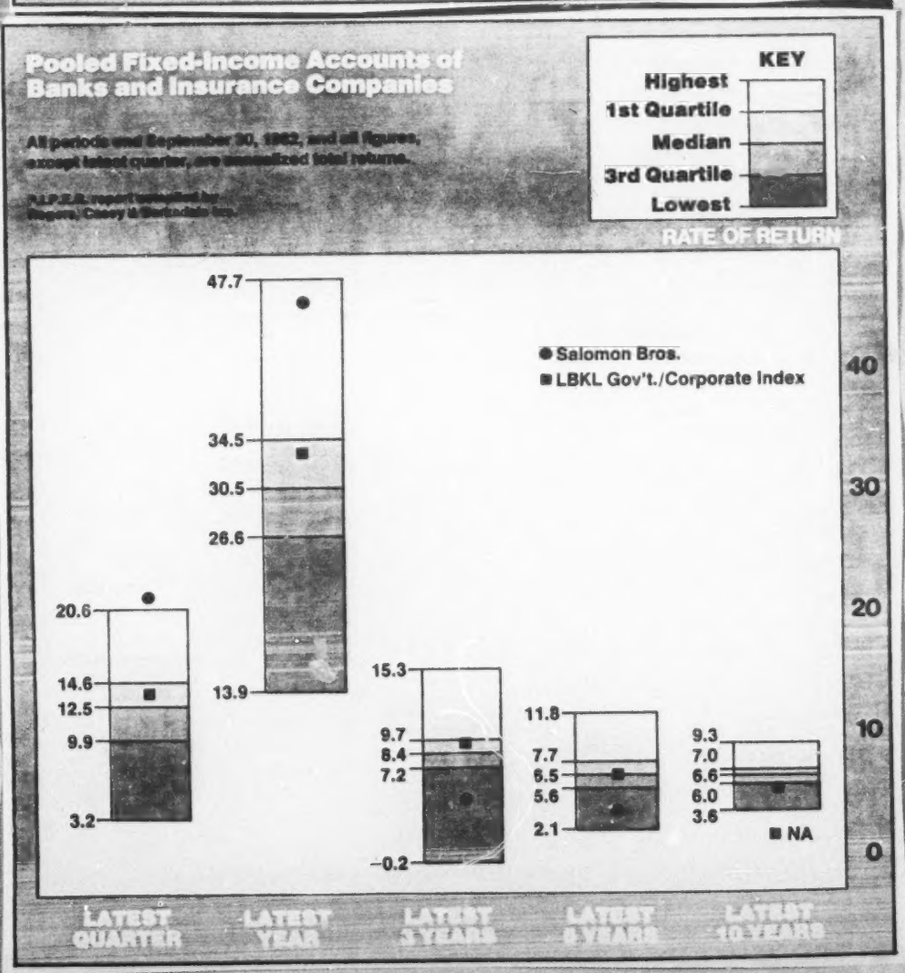
3-month returns

	%
Bank One Trust, Oh	23.0
Ohio Citizens Trust	18.3
Citizens Chillicothe, Mo	18.2
New England Mutual, Ma	17.7
Security Pacific, Ca	17.1
Centerre Trust, Mo	16.3
First of Oklahoma	16.2
Central Bank Denver, Co	15.9
Virginia Natl	15.5
Sun Bank, Fl	15.5
Central Fid, Richmond, Va	15.3
First Tennessee, Chat	15.2
First Union Bank, NC	14.9
Gary-Wheaton Bank, Il	14.9
First Interstate of Or	14.5
Manufacturers Detroit, Mi	14.3
Colorado Natl Bank	14.0
Old Natl, Wa	14.0
Continental Illinois	14.0
Union Commerce, Oh	13.8
Seattle Trust, Wa	13.8
Guardian Insurance, NY	13.7
Florida Natl Bank	13.7
First of Bartlesville, Ok	13.5
Mutual Benefit, NJ	13.5
Valley Natl, Az	13.5
Long Island Trust, NY	13.3
First Trust Corp, Co	13.3
US Natl of Oregon	13.2
Boatmen's Natl, Mo	13.2
Texas Commerce	13.1
Fourth Natl, Tulsa, Ok	13.1
Fifth Third Bank, Oh	13.1
First Trust, St. Paul, Mn	13.1
Bessemer Trust, NY	13.0
Lincoln National, In	13.0
Bankers Life, Ia	13.0
Southeast Bank, Fl	13.0
Key Trust Co, NY	13.0
American Fletcher, In	12.9
Provident Natl, Pa	12.9
Detroit Bank & Trust, Mi	12.8
First Wisconsin Trust	12.8
Minnesota Mutual	12.8
Summit & Elizabeth, NJ	12.8
Wilmington Trust, De	12.8
Natl City Cleveland, Oh	12.8
Midlantic National, NJ	12.7
Southern Penn. Bank	12.6
Exchange Natl, Chicago	12.6
John Hancock (Alpha Plus)	12.6
Merchants Natl, Pa	12.6
Chase Manhattan, NY	12.6
Security-Peoples Trust, Pa	12.5
First Wi. Natl, Madison	12.5
First of Denver, Co	12.4
Central Natl, Clev. Oh	12.3
John Hancock (stock) Ma	12.3
First Interstate of Az	12.3
First of Birmingham, Al	12.2
Mercantile Safe, Md	12.2
Equitable Life (No. 1)	12.1
First of Shreveport, La	12.1
Bank of California	12.1
Nationwide Life Ins, Oh	12.1
Standard & Poor's 500	**11.5**

1-year returns

	%
First of Oklahoma	32.7
Security Pacific, Ca	28.4
Commonwealth Natl, Pa	28.2
Central Fid, Richmond, Va	27.7
Bank of the West, Ca	26.7





Central Bank Denver, Co	25.5
New England Mutual, Ma	25.4
Midlantic National, NJ	25.3
Union Natl, Wichita, Ks	23.9
Resource Trust Co, Mn	23.8
First of Birmingham, Al	23.5
Union Commerce, Oh	23.2
Southern Penn. Bank	23.1
Bank One Trust, Oh	22.8
American Fletcher, In	22.2
Ohio Citizens Trust	21.5
United of Denver, Co	21.4
United Virginia Bank	20.9
Mercantile at Dallas, Tx	20.5
Nationwide Life Ins, Oh	20.4
American Natl, Austin, Tx	20.4
Manufacturers Detroit, Mi	20.1
Texas Commerce	19.9
Home Life, NY	19.9
Gary-Wheaton Bank, Il	19.8
Mutual Benefit, NJ	19.1
First Tennessee, Chat	19.1
Sun Bank, Fl	19.0
Riggs of Washington	18.7
Bessemer Trust, NY	18.3
First Natl, Lincoln, Ne	18.2
Minnesota Mutual	18.1
Massachusetts Mutual	18.1
Lincoln National, In	17.9
Colorado Natl Bank	17.8
Fifth Third Bank, Oh	17.7
Commerce Bank, K.C., Mo	17.6
Austin National, Tx	17.6
Southeast Bank, Fl	17.6
Olympic Bank, Wa	17.5
Genesee Merchants, Mi	17.4
First of Warsaw, In	17.3
Allied Bank, Tx	17.1
Landmark Union Trust, Fl	16.7
Union Planters, Tn	16.6
First of Bartlesville, Ok	16.6
US Natl of Oregon	16.5
Mid-State Bancorp, Pa	16.5
First Wi. Natl, Madison	16.3
First American, Tn	16.3
Central Natl, Clev. Oh	16.2
BancTexas, Dallas	16.1
First Interstate of Wa	16.0
Virginia Natl	16.0
First Interstate of Or	15.9
Wheeling Dollar Bank, WV	15.9
First Natl State, NJ	15.8
Provident Mutual, Pa	15.7
Bank of California	15.6
US Natl of Galveston, Tx	15.6
Long Island Trust, NY	15.5
Liberty Natl, Ok	15.0
First City Natl, Houston, Tx	15.0
Standard & Poor's 500	**10.0**

3-year returns

	%
Citizens Chillicothe, Mo	22.9
First of Oklahoma	22.2
First of Denver, Co	20.5
Home Life, NY	19.4
First Natl of Commerce, La	18.6
Phoenix Mutual, Ct	18.1
Mercantile at Dallas, Tx	17.5
Philadelphia Natl, Pa	17.5
Girard Bank, Pa	17.2
Bessemer Trust, NY	16.7
Genesee Merchants, Mi	16.5
Bank One Trust, Oh	16.5
US Natl of Oregon	16.3
Austin Natl, Tx	16.2
Wheeling Dollar Bank, WV	16.2
Marine Trust, Wi	15.8
Equitable Life (No. 4)	15.6
United of Denver, Co	15.3
First Union Bank, NC	15.3
First Natl, Lincoln, Ne	15.2
First Tennessee, Chat	15.2
Massachusetts Mutual	15.0
Capital Bank, Houston, Tx	15.0
Manufacturers Detroit, Mi	15.0
Southern Penn. Bank	14.9
First Interstate of Wa	14.9
Natl of Commerce, Ne	14.9
United Virginia Bank	14.8
New England Mutual, Ma	14.6
Commonwealth Natl, Pa	14.5
Central Fid, Richmond, Va	14.5
First Trust Corp, Co	14.5
Mid-State Bancorp, Pa	14.4
First of Birmingham, Al	14.4
US Natl of Galveston, Tx	14.4
Provident National, Pa	14.3
Rainier National, Wa	14.2
Philadelphia Life, Pa	14.2
First of Ft. Worth, Tx	14.1
Sun Bank, Fl	14.1
Union Planters, Tn	14.0

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